

COST ACCOUNTING STANDARD ON MANUFACTURING COST

CAS - 22

Introduction

This standard deals with the principles and methods of determining the Manufacturing Cost of excisable goods.

This standard deals with the

- principles and methods of classification,*
- measurement and assignment for determination of the Manufacturing Cost of excisable goods and*
- the presentation and disclosure in cost statements.*

Objective

- ▶ The objective of this standard is to bring uniformity and consistency in the principles and methods of determining the Manufacturing Cost of excisable goods.

Scope

- ▶ This standard should be applied to **cost statements** which require
 - ❖ classification,
 - ❖ measurement,
 - ❖ assignment, presentation and
 - ❖ disclosure of Manufacturing Cost of excisable goods.

Important Definitions & Interpretations

Administrative Overheads

- ▶ Cost of all activities relating to general management and administration of an organization.

Include:

In relation to Production
Manufacturing Activities

Exclude

In relation to Marketing, Project
Management, Corporate Office or any
other expenses not related to
Manufacturing

Defectives / Reworks / Reject

- ▶ Defectives: End Product and/or intermediate product units that do not meet quality standards. This may include reworks or rejects.
- ▶ Reworks: Defectives which can be brought up to the standards by putting in additional resources.
- ▶ Rejects: Defectives which cannot meet the quality standards even after putting in additional resources.

Principles of Measurement

- Material cost shall be measured separately for each type of material, that is, for **indigenous material, imported material, bought out components and process materials, self-manufactured items**, accessories for each type of excisable good.
- Cost of Inputs received free of cost or at concessional value from the buyer of the excisable good shall be considered for determination of manufacturing cost.
- *Manufacturing cost of each excisable good shall be the aggregate of direct and indirect cost relating to manufacturing activity.*

Principles of Measurement

Manufacturing cost of excisable good shall **include cost of inputs received free of cost or at concessional value** from the

- ✓ buyer of excisable good and
- ✓ amortization cost of free tools,
- ✓ pattern, dies, drawings, blue prints, technical maps, charts, engineering, development, art work, design work, plans, sketches, and
- ✓ the like necessary for production of excisable good.

It shall also include cost of rework, reconditioning, retrofitment, Manufacturing Overheads and other costs allocable to such activity, adjustment for stock of work-in- process and recoveries from sales of scrap and wastages and the like necessary for production of excisable good.

Principles of Measurement

- ❑ Employee Cost for each excisable good shall be measured separately
- ❑ Packing material cost used for each type of excisable good shall be measured separately.
- ❑ Repairs and maintenance cost for manufacturing of excisable goods shall be measured for each excisable good separately
- ❑ Research & Development cost for manufacturing of excisable goods shall be measured for each excisable good separately

Principles of Measurement

- ❑ Royalty and Technical Know-how Fee for manufacturing of excisable goods paid or incurred in lump-sum or which are in the nature of 'one-time' payment, shall be amortised on the basis of the estimated output or benefit to be derived from the related Technical Know how.
- ❑ Quality Control cost incurred in-house for manufacturing of excisable goods shall be the aggregate of the cost of resources used in the Quality Control activities in relation to each excisable good.
- ❑ Manufacturing Overheads for excisable goods representing procurement of resources shall be determined at invoice or agreed price including duties and taxes, and other expenditure directly attributable thereto net of discounts; taxes and duties refundable or to be credited as input credit.

Principles of Measurement

- ❑ Any Subsidy/Grant/Incentive or any such payment received/receivable, from other entity, other than the buyer with respect to any manufacturing cost of excisable good shall be deducted for ascertainment of the manufacturing cost of excisable good to which such amounts are related.
- ❑ The manufacturing cost of excisable good shall be determined based on the normal capacity or actual capacity utilization whichever is higher and unabsorbed cost, if any, shall be treated as abnormal cost.
- ❑ Fines, penalties, damages, demurrage and similar levies paid to statutory authorities or other third parties shall not form part of the manufacturing cost of excisable good.

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Assignment of Cost

- ▶ *While assigning various elements of manufacturing cost of excisable goods, traceability to an excisable good in an economically feasible manner shall be the guiding principle. The cost which can be traced directly to each excisable good shall be directly assigned.*

Assignment of Cost

Assignment of manufacturing cost of excisable goods, which are not directly traceable to the excisable good shall be based on either of the following two principles;

Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.

Benefits received - to be apportioned to various cost objects in proportion to the benefits received by them.

Assignment of Cost

The variable manufacturing/production overheads shall be absorbed based on actual production.

The fixed manufacturing/production overheads and other similar item of fixed costs such as quality control cost, research and development costs and administrative overheads relating to manufacturing shall be absorbed in the manufacturing cost on the basis of the normal capacity or actual capacity utilization of the plant, whichever is higher.

Presentation

Cost statement as per Appendix 1 to this standard or as near thereto shall present following

Information: *Actual capacity utilization in absolute terms and as a percentage of normal capacity.*

Cost information relating to various elements of Cost shall be presented separately.

Disclosures

Disclosure shall be made only where material, significant and quantifiable.

If there is any change in cost accounting principles and practices during the period under review which may materially affect the manufacturing cost of excisable good in terms of comparability with previous period(s), the same shall be disclosed.